

University of Mississippi eGrove

Association Sections, Divisions, Boards, Teams

American Institute of Certified Public Accountants
(AICPA) Historical Collection

2000

ASB meeting minutes, 2000, April 5-6; Auditing Standards Board approved highlights, 2000, April 5-6

American Institute of Certified Public Accountants. Auditing Standards Board

Follow this and additional works at: https://egrove.olemiss.edu/aicpa_assoc

Part of the [Accounting Commons](#), and the [Taxation Commons](#)

Recommended Citation

American Institute of Certified Public Accountants. Auditing Standards Board, "ASB meeting minutes, 2000, April 5-6; Auditing Standards Board approved highlights, 2000, April 5-6" (2000). *Association Sections, Divisions, Boards, Teams*. 102.
https://egrove.olemiss.edu/aicpa_assoc/102

This Book is brought to you for free and open access by the American Institute of Certified Public Accountants (AICPA) Historical Collection at eGrove. It has been accepted for inclusion in Association Sections, Divisions, Boards, Teams by an authorized administrator of eGrove. For more information, please contact egrove@olemiss.edu.

AUDITING STANDARDS BOARD

Meeting: Auditing Standards Board (ASB)

Date: April 5-6, 2000

Location: AICPA
1211 Avenue of the Americas
New York, NY 10036

Meeting

Attendance: Deborah D. Lambert, Chair
James S. Gerson, Vice Chair
Linda K. Cheatham
Robert F. Dacey
Richard Dieter
Robert Dohrer (for John Barnum)
J. Michael Inzina
Charles E. Landes
Scott McDonald
Keith O. Newton
Robert C. Steiner
George H. Tucker
Ray Whittington

Absent

John Barnum
Andrew J. Capelli
Sally Hoffman

Other Participants

Thomas Ray, Director, Audit and Attest Standards
Julie Anne Dilley, Technical Manager, Audit and Attest Standards
Gretchen Fischbach, Technical Manager, Audit and Attest Standards
Jane M. Mancino, Technical Manager, Audit and Attest Standards
Judith Sherinsky, Technical Manager, Audit and Attest Standards

Observers

Scott Bayless
Joe Bentz
John Brolly
Jennifer Burns

Gabriel de la Rosa
Dave Frazier
John M. Morrissey
Laura Phillips
Jeffrey Thomson

I. CHAIR'S AND VICE CHAIR'S REPORT

Deborah D. Lambert, Chair and James S. Gerson, Vice Chair reported on the Audit Issues Task Force (AITF) meetings of March 15, 2000 and April 4, 2000 in New York, NY. A summary of the meetings is attached.

II. DIRECTOR'S REPORT

Thomas Ray, AICPA Director, Audit and Attest Standards, provided the Auditing Standards Board a report on the results of the meeting of the International Auditing Practices Committee, held in Prague, Czech Republic, the week beginning March 6, 2000.

III. AGENDA ITEMS PRESENTED AT MEETING

Omnibus SAS (File Ref. No. 3733):

James S. Gerson led the discussion regarding the Omnibus Statement on Auditing Standards—2000 Task Force's proposed SAS. The proposed SAS will—

- a. Withdraw SAS No. 75, *Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement* (AICPA, *Professional Standards*, vol. 1, AU sec. 622) and its Interpretation in order to consolidate the guidance applicable to agreed-upon procedures engagements in professional standards. The guidance currently in SAS No. 75 will be incorporated in Statement on Standards for Attestation Engagements No. 4 (AICPA, *Professional Standards*, vol. 1, AT sec. 600).
- b. Amend AU section 543 to clarify the position of an auditor of an investee accounted for under the equity method (see SAS No. 1, *Codification of Auditing Standards and Procedures*, AICPA, *Professional Standards*, vol. 1, AU sec. 543, "Part of Audit Performed by Other Independent Auditors").
- c. Amend SAS No. 58, *Reports on Audited Financial Statements* (AICPA, *Professional Standards*, vol. 1, AU sec. 508.08), to include a reference in the auditor's report to the country of origin of the accounting principles used to prepare the financial statements and of the auditing standards the auditor followed in performing the audit. It also withdraws Auditing Interpretation No. 13, "Reference to Country of Origin in the Auditor's Standard Report," of SAS No. 58 (AICPA, *Professional Standards*, vol. 1, AU sec. 9508.53–.55).

- d. Amend SAS No. 84, *Communications Between Predecessor and Successor Auditors* (AICPA, *Professional Standards*, vol. 1, AU sec. 315.02), to clarify the definition of predecessor auditor

After discussion, the ASB voted to ballot the document for exposure. A summary of the ASB's preference vote is as follows:

Summary of Board Preference Vote
Omnibus SAS—2000 (File Ref. No. 3733)

	Yes	No	Abstain	Absent
Should the proposed Statement on Auditing Standards, <i>Omnibus SAS—2000</i> , be exposed for comment?	12			3

Technology Issues (File Ref. No. 4420):

George H. Tucker, Chair, Technology Issues Task Force, presented an initial draft of proposed amendments to AU section 319, *Consideration of Internal Control in a Financial Statement Audit*, to reflect the impact of information technology (IT) on the auditor's consideration of internal control. The amendments—

- Incorporate the guidance in SAS No. 80, *Amendment to Statement on Auditing Standards No. 31*, Evidential Matter, that in some circumstances, the auditor may need to perform tests of controls to perform an effective audit.
- Describe the effects of IT on internal control, including the benefits and risks of IT.
- Discuss the auditor's consideration of IT in planning the audit and obtaining an understanding of the components of internal control relevant to the audit.
- Enhance the guidance on assessing control risk to explicitly include a consideration of IT.

Members of the ASB discussed the draft and suggested a number of revisions including the following:

- Add a brief definition of IT, perhaps in a footnote, in the first few paragraphs of AU 319.
- Reconsider the guidance in paragraphs .03 and .47 that states that the auditor may assess control risk at the maximum level because evaluating the effectiveness of controls would be inefficient. This is inconsistent with guidance in paragraphs .03.1, .21.1, and .47.1 that the

auditor should perform tests of controls in circumstances where the auditor has determined that it is not possible to reduce detection risk to an acceptable level by performing only substantive tests for one or more assertions.

- Draft additional guidance on criteria or characteristics that would cause the auditor to conclude that he or she should perform tests of controls because it is not possible to reduce detection risk by performing only substantive tests. For example, the complexity and sophistication of systems are environmental factors that might drive such a conclusion, but this doesn't come through in the proposed amendments.
- Include the guidance from SAS No. 80 that the auditor should consider the effect on his or her report if controls are not effective and detection risk cannot be reduced to an acceptable level by performing only substantive tests.
- Clarify the meaning of override vs. circumvention of controls in paragraphs .15.3 and .16.
- Restore and clarify the guidance in paragraphs .21 and .53 that operating effectiveness is concerned with how the control was applied and who applies the control.
- Consider moving paragraph .21.1 to the section on assessing control risk, or redrafting it.
- In the section on obtaining an understanding of control components, work the consideration of IT into guidance on the control environment component, align the discussion of general and application controls to the similar discussion in the Appendix, and clarify the meaning of .36.1 on the information and communication component.
- Consider incorporating the guidance in Amendment No. 1 to the Government Auditing Standards, *Documentation Requirements When Assessing Control Risk at Maximum for Controls Significantly Dependent Upon Computerized Information Systems*.
- Make reference to paragraphs .64-.78 in paragraphs .51-.53 on performing tests of controls.
- Abbreviate, and consistently use, terminology about information that is "initiated, transmitted, processed, maintained, accessed, recorded, summarized and reported." Also, refine the use of terminology and enhance the readability through shorter sentences.
- Consider incorporating the guidance on the SysTrust components of systems into the text of the standard rather than in a footnote.

Audit Documentation (File Ref. No. 4708):

W. Scott McDonald, chair of the Audit Documentation Task Force, led the ASB's discussion of threshold issues that the task force identified relating to this project. Based on the discussion of the threshold issues, the ASB made several recommendations to the task force. Some of those recommendations were as follows:

- Draft a new Statement on Auditing Standard (SAS) to replace SAS No. 41, *Working Papers*. This new standard would apply to all engagements performed under the SASs.
- Focus the initial drafting efforts on audit documentation issues (the task force should address review and supervision issues separately from audit documentation issues).
- Define the terms *reperformance* and *significant matters*.
- Inquire of AICPA general counsel as to any issues relating to the use of the term *audit documentation* instead of *working papers*.
- Consider whether there are any documentation issues relating to SAS No. 59, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*.
- Attach a level of significance to any requirement for documenting the auditor's knowledge of the entity's business and the industry in which it operates.

The ASB also informed the task force that it is not practicable to require documentation of the basis of the auditor's conclusions about the effect of the assessed levels of inherent and control risks on the nature, timing, and extent of substantive tests. Additionally, the SASs should not include guidance relating to permanent files or conversion of audit documentation from paper to electronic form. Therefore, the new documentation guidance will not address any of these matters.

Pursuant to its charge and the above recommendations from the ASB, the task force will draft a new documentation SAS and consider the need for related amendments to other SASs. The task force will present a draft of the new SAS and any proposed amendments to existing standards at the ASB's June meeting.

Dating of the Independent Auditor's Report (File Ref. No. 2410):

The Technical Audit Advisors Task Force has been considering issues related to key financial statement audit dates. Gabriel de la Rosa, a member of the Technical Audit Advisors Task Force, presented these issues to the Auditing Standards Board. The following are some of the issues that were identified.

- AU section 530.01, *Dating of the Independent Auditor's Report*, states, "Generally, the date of completion of the field work should be used as the date of the independent auditor's report."
 - How does an auditor determine when field work is complete?

- Must the financial statements be complete for field work to be considered complete?
- At what stage of completion must the audit work be for the auditor to issue his or her report?
- What effect does a company's press earnings release have on the audit?
- Under what circumstances would the report date be different from the date field work was completed?
- ***When are financial statements issued?***
 - Is it correct to assume that financial statements and the auditor's report are issued simultaneously?
 - Is there a need to clarify that the client issues financial statements and the auditor issues the audit report?
- What are the auditor's responsibilities from the date of the auditor's initial report to the reissuance date?
 - Should the auditing literature be clarified to—
 - i. Either expand or limit the auditor's responsibility with respect to the period subsequent to the issuance of the auditor's report?
 - ii. Indicate that the auditor is only responsible for responding to events that come to his or her attention in the subsequent events period and not for actively searching for such information?
 - If there is a long delay between the date of the auditor's report and the date of report issuance (and issuance of the financial statements), is there an expectation that the auditor has a responsibility to perform certain subsequent events procedures?

At the conclusion of the discussion, the ASB agreed to form a new task force to address these issues.

ATTACHMENT TO HIGHLIGHTS OF ASB APRIL 5-6, 2000 MEETING

Highlights of AITF meeting on March 15, 2000

WebTrust Update

Thomas Ray, Director, Audit and Attest Standards, reported that an Assurance Services task force is updating the WebTrust service. Because of the expected nature of some of the changes, ASB involvement in reviewing the guidance prior to its planned exposure around June 1 would facilitate introduction of the services. Charles E. Landes, AITF member, agreed to help with this process and Jane Mancino, Technical Manager, Audit and Attest Standards, also will participate.

Issue Regarding By-Product Reports Issued in Accordance with EPA Regulations

George H. Tucker, AITF member, reported about instances where cognizant EPA authorities had questioned why negative assurance was expressed in the auditor's report on agreeing certain items on a client schedule to the client's Form 10K, since the standards on agreed-upon procedures engagements prohibit providing negative assurance. AITF members discussed the issue and agreed that such reports are byproduct reports performed in connection with the audit of the financial statements as provided under SAS No. 62, *Special Reports*.

OIG Corporate Compliance Engagement Update

D. Lambert reported that she and William R. Titera, Chair, Health Care Pilot Task Force, will meet on Friday, March 24, with representatives of the Office of Inspector General (OIG) of the U.S. Department of Health and Human Services. Participants will discuss issues that have arisen with regard to agreed-upon procedures engagements performed pursuant to SOP 99-1, *Guidance to Practitioners in Conducting and Reporting on an Agreed-Upon Procedures Engagement to Assist Management in Evaluating the Effectiveness of Its Corporate Compliance Program*, to evaluate the effectiveness of a health care provider's compliance with requirements of a Corporate Integrity Agreement (CIA) entered into with the OIG. In order to obtain acknowledgment from specified users that they agree with the procedures and take responsibility for the sufficiency of the procedures for their purposes, the SOP provides that the practitioner may submit a draft report to OIG detailing the procedures that are expected to be performed, and stating that unless informed otherwise within 90 days, the practitioner will assume that there are no additional procedures that are expected to be performed. Practitioners have encountered instances where the OIG has responded to the submission of draft reports with a form letter stating that the OIG does not review draft reports and will not comment on the draft. The AICPA staff for the expert panel on health care will be asked to attend the meeting.

Insurance Derivatives Engagements

James S. Gerson, AITF member, reported that he will participate in a conference call meeting on March 23 with members of a NAIC/AICPA task force and representatives of the New York State Insurance Department to discuss alternatives to satisfy the requirement of a recent New York State law for an assessment by the independent certified public accountant of an insurer's internal control over derivatives transactions.

Bank Confirmations Update

J. Gerson asked that AITF members elicit feedback from practitioners in their firms about instances where banks have imposed a fee for responding to bank confirmation requests, or where the bank's response to the confirmation included disclaimers about the completeness or accuracy of the information provided in the confirmation. When the information has been collected, a meeting with representatives of the American Bankers Association will be requested to discuss why such practices are occurring and how the issues may be resolved.

QCIC Draft Letter

D. Lambert led a discussion about a draft letter to the ASB from Robert Neary, Chair, Quality Control Inquiry Committee (QCIC). The letter states that the QCIC continues to see situations where the audit team's lack of understanding about internal control appears to affect the team's ability to fully identify all areas of specific risk and to develop the appropriate response. The letter suggests that the ASB consider the need for additional guidance or changes in standards to address this issue. D. Lambert recommended that representatives and staff of the AITF and the QCIC meet to discuss the specific aspects of the issue so that it can be given appropriate consideration at the AITF planning meeting on May 8-9. AITF members J. Gerson, G. Tucker, Robert C. Steiner, and Andrew J. Capelli volunteered to attend this meeting.

SAS 89 Inquiry

T. Ray reported that he had received an inquiry about whether the scope of SAS No. 89, *Audit Adjustments*, includes disclosures that are either deficient or are omitted from the financial statements. AITF members discussed the matter and agreed that SAS No. 89 was not intended to address disclosures.

Independence Interpretation 101-11

D. Lambert and Gretchen Fischbach, Technical Manager, Audit and Attest Standards, led a discussion about a proposed revision of Interpretation 101-11 of Rule 101, *Independence*, titled "Independence and the Performance of Professional Services Under the Statements on Standards for Attestation Engagements and Certain Statements on Auditing Standards." The proposed revision establishes an engagement-team criterion of independence for all attestation

engagements and for engagements performed under SAS No. 62 (except for OCBOA financial statements) and SAS No. 70, *Reports on the Processing of Transactions by Service Organizations*. AITF members recommended that the task force drafting the interpretation omit language discussing the narrow scope of the engagements from the rationale for the engagement-team approach to independence; replace the reference to the engagement-team partner with the terminology from SAS No. 22, *Planning and Supervision*, on the auditor with final responsibility for the engagement; and delete the reference to restricted-use reports from the examples of safeguards that protect the engagement team from potential influences that may affect engagement team independence. G. Fischbach will communicate these recommendations to AICPA staff for the task force.

Scope of Proposed Project on Reliance on Other Auditors

A. Capelli presented a draft paper outlining the scope of a proposed project to amend AU section 543, *Part of Audit Performed by Other Independent Auditors*. The primary objective of the proposed project is to clarify the guidance in AU sec. 543 so that practitioners can more easily determine when it is applicable and when it is not. Among the issues the project would address are the applicability of the guidance to outsourcing situations such as the use of service auditors' reports or SysTrust reports; the distinction between "evidence" and "reliance;" and the nature and extent of procedures that the principal auditor should perform with regard to the participating auditor's work when reference is not made to the participating auditor. AITF members suggested that the paper be reorganized under several major themes and submitted as the basis for discussion of this proposed project at the AITF's upcoming planning meeting.

Draft SOP on Investment Performance Statistics Engagements

Karyn Vincent, Chair, Investment Performance Statistics Task Force (task force), and Julie Anne Dille, Technical Manager, Audit and Attest Standards, presented issues relating to an SOP that the task force is drafting to provide guidance to practitioners performing engagements pursuant to the Association for Investment Management and Research Performance Presentation Standards (AIMR-PPSTM). In April, AIMR plans to expose changes to the AIMR-PPS to bring them more in conformity with AIMR's Global Investment Performance Standards (GIPS). The proposed changes are intended to facilitate performance of "Level I" engagements by requiring practitioners to test, among other things, whether an investment firm's policies and procedures are designed to calculate and present performance results in compliance with AIMR-PPS. The AIMR-PPS requirement for "Level II" engagements also likely will be modified to require a Level I engagement as a condition for performing a Level II engagement. AITF members recommended changes to address differences between the assertions presented in the SOP and the GIPS model that AIMR is expected to follow in revising the AIMR-PPS. The AITF also recommended that the task force draft guidance on appropriate policies and procedures, on different reporting options available under the attestation standards, and on procedures to address practice issues that may arise in performing these engagements.

IPR&D Consistency Issue

R. Steiner, member of the AICPA's IPR&D Task Force (task force), presented an update on the auditing guidance in the nonauthoritative "best practices" guide that the task force is drafting. The guide is expected to be available for negative clearance by targeted constituents around mid-April. The comment period will be 30 days. At the April 5-6 ASB meeting, D. Lambert will ask for four or five volunteers to review the guidance.

Peer Review Process Task Force Recommendation

D. Lambert led a discussion about a recommendation from the Peer Review Process Task Force (task force) that the Statements on Quality Control Standards (SQCS) should be expanded to add more specific guidance. The recommendation is intended to be responsive to concerns expressed by the Securities and Exchange Commission (SEC) that the SQCS need to be strengthened. Since the SQCS are applicable to firms of various sizes and structures, guidance on specific policies and procedures that firms may consider in implementing the standards is contained in the AICPA's nonauthoritative *Guide for Establishing and Maintaining a System of Quality Control for a CPA Firm's Accounting and Auditing Practice*. AITF members C. Landes, G. Tucker, and R. Steiner volunteered to discuss with Rick Miller, the task force Chair, more specific details concerning the recommendation and also how the recommendation may be addressed.

Update on Fraud Research Projects

Ray Whittington, AITF member, provided a progress report on the four academic research projects on the effectiveness of SAS No. 82, *Consideration of Fraud in a Financial Statement Audit*. Two projects are nearly complete, one should be available around the end of July, and the scope of the fourth may need to be changed. An update will be provided at the April 5-6 ASB meeting.

Inclusion of Attest Reports in SEC Registration Statements

G. Tucker raised an issue about whether a corollary for the guidance in AU section 711, *Filings Under Federal Securities Statutes*, should be incorporated into the attestation standards. The need for this guidance may arise since it is likely that clients will acknowledge the marketing value of having had an attestation engagement such as WebTrust or SysTrust performed and will want to make reference to these engagements in their offering documents. The AITF referred this issue to the SEC Auditing Practice Task Force to solicit their input as to the need for such guidance.

Proposed Revisions to SAS 71 Standard Review Report

J. Gerson led a discussion about a potential need to revisit the accountant's report on a review of interim financial information for a public company that is contained in SAS No. 71, *Interim Financial Information*, to make the report clearer and perhaps more informative about what is done in a review. The proposed project will be discussed further at the AITF planning retreat.

Quality Control Manual Update

David Brumbeloe, Director—SEC Practice Section, presented several issues concerning timing and format for publication of revisions of the AICPA's *Guide for Establishing and Maintaining a System of Quality Control for a CPA Firm's Accounting and Auditing Practice* (the Guide). Guidance has been drafted to discuss how practitioners might implement the newly issued SQCS No. 4, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*, and No. 5, *The Personnel Management Element of a Firm's System of Quality Control—Competencies Required by a Practitioner-in-Charge of an Attest Engagement*. In addition, guidance will need to be drafted on changes to the SECPS membership requirements regarding independence. AITF members recommended that the guidance on implementation of the new standards be posted on the AICPA Web site and that a notice be placed in the *CPA Letter* directing practitioners where to find it. Print publication of the revised Guide can be deferred until the other guidance on independence matters has been developed for incorporation into the Guide.

Auditing Reserves Update

Susan Jones, Technical Manager, Audit and Attest Standards, distributed the Table of Contents for the practice guide, *Auditing Reserves*, that she is drafting and asked for AITF comments on the scope of issues being addressed. AITF members recommended that the summary of accounting literature be narrowed to focus on areas in which the SEC has expressed concern about improper accounting, that the section on research and development be excluded, and that the guidance distinguish between true reserves and premature write-offs.

ASB Projects Update

The Exposure Draft of amendments to the attestation standards will be posted on the AICPA Web site around April 14 for a comment period of 60 days. Two different versions of AT section 600, *Agreed-Upon Procedures Engagements*, will be maintained until the outcome is known about the plan to rescind SAS No. 75, *Engagements to Apply Agreed-Upon Procedures*, at the April 5-6 ASB meeting. Michael Ramos will write the nonauthoritative practice aid that is expected to be published concurrently with the issuance of the amendments to the attestation standards this fall.

The Audit Documentation task force will present a draft of proposed amendments to various standards for discussion at the April 5-6 ASB meeting.

Comments on the exposure drafts of the proposed SAS on Financial Instruments and the related practice Guide are to be submitted directly to Judith Sherinsky, Technical Manager, Audit and Attest Standards, no later than April 14. Judith will prepare a summary of all comments received and distribute it to the task force by April 25 in preparation for the May 2 meeting of the task force. On May 19, the revised SAS and audit Guide will be mailed to the ASB, with the objective of voting out the final SAS and clearing the Guide at the ASB's June 6-8 meeting.

Highlights of AITF meeting on April 4, 2000

Auditor's Report on NPO Comparative Information

Gregory B. Capin, former NPO Committee Chair, and Joel M. Tanenbaum, Technical Manager, Accounting Standards, led a discussion about the auditor's reporting responsibility for comparative financial statements of a not-for-profit entity if the prior-years(s) financial statements do not include the minimum information required by generally accepted accounting principles (GAAP). For example, a common scenario is that the prior-year balance sheet and statement of cash flows include the minimum information required by GAAP, but the prior-year statement of activities includes amounts in total rather than by net asset class.

The AITF previously had concluded that a continuing auditor should modify the introductory paragraph of his or her current year audit report to state that the prior-year summarized information has been derived from financial statements previously audited and the nature and date of his or her report on those statements. In such circumstances, the auditor's opinion paragraph would not cover the prior-year(s) balance sheet, statement of activities, or statement of cash flows. The AITF also concluded that if an entity wants the auditor to opine on comparative financial statements taken as a whole, then the full set of financial statements for the prior year should be presented in conformity with GAAP.

AITF members recommended that guidance be developed for inclusion in the AICPA Audit and Accounting Guide, *Not-for-Profit Organizations* (the Guide), that includes sample report language illustrating the above. Deborah D. Lambert, AITF chair, and Thomas Ray, Director, Audit and Attest Standards, will review the draft guidance before its inclusion in the Guide.

AU sec. 543 Issue

George H. Tucker, AITF member, raised an issue about implications of proposed guidance in the Exposure Draft, *Omnibus Statement on Auditing Standards - 2000* (the ED), that is expected to be voted for exposure at the April 5-6 ASB meeting. The AITF recommended that the rationale in the ED for the deletion of AU sec. 543.14 be clarified. Andrew J. Capelli, AITF member, drafted additional language for inclusion in the ED. In addition, AITF members discussed the

possibility of clarifying the issue in the proposed Statement on Auditing Standards, *Auditing Financial Instruments*, and the related draft Guide.

Letter to the FASB

D. Lambert reported that she had received a response from Edmund L. Jenkins, Chairman, Financial Accounting Standards Board (FASB), to her letter dated March 6, 2000 requesting that the FASB provide additional guidance on the qualitative characteristics set forth in FASB Statement of Financial Accounting Concepts No. 2, *Qualitative Characteristics of Accounting Information*. The letter states that the FASB is in the process of considering the request, and asks that a white paper that is mentioned in the letter as being drafted by the AICPA's SEC Regulations Committee be forwarded upon its completion. The latter guidance was incorporated into Practice Alert 2000-2, *Quality of Accounting Principles Guidance for Discussions with Audit Committees*, which will be distributed the week of April 3 to AICPA members in public accounting firms as a supplement to the April 2000 *CPA Letter*. A copy of the Practice Alert will be forwarded to E. Jenkins.

SQCS Conference Call

Charles E. Landes reported about a recent conference call involving a group of AITF members, Rick Miller, Chair of the Peer Review Process Task Force (task force), and AICPA staff concerning a task force recommendation to the ASB that the Statements on Quality Control Standards (SQCS) be expanded to include more specific guidance. The group discussed approaches to the SQCS including how to raise the awareness of the *Guide for Establishing and Maintaining a System of Quality Control for a CPA Firm's Accounting and Auditing Practice* (the Guide), and the possibility of raising the Guide to an authoritative level similar to that of AICPA Audit and Accounting Guides. The need to develop a maintenance plan for the Guide also was discussed.

D. Lambert, J. Gerson, T. Ray, C. Landes, and David Brumeloe, Director, SEC Practice Section, will bring a proposal to the May 9 AITF meeting with regard to the establishment, the possible composition, and the charge of a task force to consider planning matters related to the SQCS, to investigate implications of elevating the Guide to a more authoritative status, and whether a more permanent task force should be established to oversee the identification and disposition of issues that arise with regard to the quality control standards and the related Guide.

Update on Implementation of Expert Panels

D. Lambert and J. Gerson, members of the AICPA's Oversight Group on Expert Panels, reported that chairs have been identified for the first three Panels to be established, which are Financial Services, Governmental/NPO, and Employee Benefits. The next meeting of the Oversight Group is July 11. The newly established Panels are expected to have strategic plans drafted by that time.

Update on SOP 99-1, Health Care Corporate Integrity Agreements

D. Lambert and William Titera, Chair, Health Care Pilot Task Force, met on Friday, March 24, with representatives of the Office of Inspector General (OIG) of the U.S. Department of Health and Human Services. Participants discussed issues that have arisen with regard to agreed-upon procedures (AUP) engagements performed pursuant to SOP 99-1, *Guidance to Practitioners in Conducting and Reporting on an Agreed-Upon Procedures Engagement to Assist Management in Evaluating the Effectiveness of Its Corporate Compliance Program*, to evaluate the effectiveness of a health care provider's compliance with requirements of a Corporate Integrity Agreement (CIA) entered into with the OIG.

Over 430 CIAs currently are in existence and the number is expected to grow. Such agreements require that there is an assessment by an independent review organization (IRO) of management's annual report on its compliance with the CIA. The annual assessment includes a billing analysis, which is a consulting engagement, and an AUP engagement. Consultants or attorneys as well as CPAs may serve as the IRO.

To address the implementation issues that have arisen with regard to this new service, D. Lambert recommended that the task force be reconstituted with continued OIG representation and additional representation from firms that perform these engagements. The task force likely would address matters such as the following that were discussed at the March 24 meeting:

- Separate submissions of planned AUP procedures and scope of billing analysis engagements to OIG for comment
- Development of separate guidance to address the billing analysis consulting engagement, and guidance that relates to the interaction of the billing analysis and AUP engagements
- Amendment of the guidance in SOP 99-1 to revise the legend provided on the draft AUP report
- Development of a more standardized protocol for inclusion in SOP 99-1, perhaps by highlighting deviations from the sample procedures in Appendix D of the SOP, to facilitate OIG review of the proposed procedures, which assumes a fairly high degree of standardization in the CIAs to be workable

W. Titera has agreed to continue as Chair of the reconstituted task force. AITF members were asked to identify members from their firms to serve on the task force as well. Annette Schumacher Barr, Technical Manager, Professional Standards & Services, will staff the task force. T. Ray will discuss with other AICPA directors the appropriate area to take responsibility for developing and disseminating the consulting guidance and the guidance on how the two services interact. The ASB will review amendments to SOP 99-1.

WebTrust Reporting Issue

T. Ray and T. Pugliese led a discussion about a proposal to use the using the terminology “independent audit” on the WebTrust seal. Even though the seal is a marketing tool and not a substitute for the auditor’s report, WebTrust is an attestation engagement, and the term “audit” currently is reserved for audits of financial statements, while the term “examination” is used to refer to engagements to provide the highest level of assurance on subject matter other than financial statements. AITF members asked T. Pugliese to draft a proposal describing why this terminology change would be helpful so that it can be added to the list of topics for the AITF’s planning meeting. Richard Miller, AICPA General Counsel, will also be asked to consider the implications of such a change.

Renumbering of the AT Sections

Jane Mancino, Technical Manager, Audit and Attest Standards, led a discussion about renumbering the AT sections upon the planned issuance later this year of major revisions of the attestation standards (the proposed revisions will be exposed for comment around mid-April).

Planning Retreat

T. Ray reported that it was now unlikely that the draft recommendations of the POB Panel on Audit Effectiveness (the Panel) would be available in time for the May planning retreat. Given the potential significance of the Panel’s recommendations on the consideration of the nature and priority of specific projects that the ASB may undertake over the next few years, the AITF decided to defer the AITF planning retreat from May 8-9 until September 12-13, 2000. The AITF will meet on May 9 for a planning session. An e-mail notice will be sent to those invited to the retreat advising them of the change in dates.

ASB Project Timeline

The target date for posting the Exposure Draft of the attestation standards on the AICPA Web site is April 14. There will be a 60-day comment period. Since the proposed amendments of AT section 100 are so extensive, a clean rather than marked draft will be exposed for comment. Marked copies of the other attestation standards will be exposed. AITF members requested that ASB members receive an e-mail transmittal with electronic files attached in Word format.

The Fraud Steering Task Force has received one research paper, and expects to receive two more soon. The other two projects will be substantially delayed. The task force will schedule a meeting to discuss results of the first three research projects and to consider areas where the international fraud standard that recently was exposed goes beyond SAS No. 82.

The Materiality Task Force has met several times to consider issues regarding materiality and whether amendments to the standards may be required. The task force will present a strategy to address the various issues at the AITF's meeting on May 9.

The SAS No. 70 task force has identified about 15 issues that will be addressed in the update of the Auditing Practice Release. The task force anticipates that the work will be done this summer and the revised guidance will be released as an Audit Guide.

The Technical Audit Advisors will present a paper at the ASB's April 5-6 meeting on issuance of financial statements. The ASB will determine how to proceed with this project and its level of priority.

The Technology Issues Task Force will present an initial draft of proposed amendments to AU section 319, *Consideration of Internal Control in a Financial Statement Audit*, at the ASB's April 5-6 meeting. A conference call and meeting of the task force have been scheduled to revise the draft for presentation at the ASB's June meeting.

The Audit Documentation Task Force will present a draft of proposed amendments to several auditing standards at the ASB's April 5-6 meeting. The task force is seeking input from the ASB on a number of issues.

The AITF discussed the timing of the publication of Statements of Position relating to implementation of the NAIC Codification and recommended that practitioners have them sufficiently in advance of the effective date of the Codification.

Governmental Audit Issues

Andrew Blossom, Chair of a task force that is revising the AICPA Audit and Accounting Guide, *Audits of State and Local Governmental Units* (the Guide), J. Michael Inzina, task force member, and Mary Foelster, AICPA Technical Manager, Professional Standards & Services, presented two governmental audit issues. The Guide is being revised in response to Governmental Accounting Standards Board (GASB) Statement No. 34.

One issue relates to confusion among users of financial statements about the auditor's reporting responsibility with regard to other supplementary information (OSI) and required supplementary information (RSI). The professional standards distinguish between the auditor's reporting responsibility for such information based on whether it is in an auditor-submitted or a client-submitted document. Since users are not likely to know whether the document was auditor-prepared or client-prepared, users may infer differences in auditor responsibility that may not exist. The task force asked the AITF's assistance in resolving or clarifying the issues to alleviate confusion on the part of report users. The AITF members concluded this was an auditing standards issue and agreed to add the issue to topics to be considered in its planning process.

Issue Concerning Predecessor/Successor Auditor Communications

T. Ray led a discussion about an inquiry from a member concerning whether or not his firm is considered a predecessor auditor under SAS No. 84, *Communications Between Predecessor and Successor Auditors* (AU sec. 315). A proposed amendment of AU sec. 315 to address the issue will be included in the Exposure Draft, *Omnibus Statement On Auditing Standards—2000*, that is expected to be voted for exposure at the ASB's April 5-6 meeting.